

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 STR-07 CEA-01 /101 W
-----001814 290920Z /10

P R 281715Z AUG 78
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC PRIORITY 8673
INFO AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
AMEMBASSY COPENHAGEN
AMEMBASSY HELSINKI
AMEMBASSY PARIS
COMICEDEFOR KEFLAVIK IC

LIMITED OFFICIAL USE REYKJAVIK 1132

USOECD

E.O. 11652: N/A
TAGS: EFIN, IC
SUBJECT: ICELANDIC CENTRAL BANK SUSPENDS FOREIGN EXCHANGE
TRANSACTIONS

REF: REYKJAVIK 0861

1. CENTRAL BANK OF ICELAND ANNOUNCED SUSPENSION OF EXCHANGE
RATE LISTINGS AS OF OPENING OF BUSINESS AUGUST 28. ONLY
CUSTOMERS WITH QTE PRESSING NEED UNQTE WILL BE PROVIDED WITH
FOREIGN CURRENCY AT LAST LISTED RATE PLUS TWENTY PERCENT
DEPOSIT.

2. COMMENTS: SECOND MAJOR DEVALUATION OF ICELANDIC KRONA
THIS YEAR, WHICH THIS MOVE ALMOST CERTAINLY HERALDS, HAS BEEN
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EXPECTED FOR SOME WEEKS (REFTEL). MOST SPECULATION HAS BEEN
FOR ADJUSTMENT OF ABOUT 15 PERCENT; HOWEVER, DEPOSIT BEING
REQUIRED BY CENTRAL BANK INDICATES THESE ESTIMATES MIGHT BE
LOW. LAST LISTED SELLING RATE FOR US DOLLAR WAS IKR. 260.40.
ACCORDINGLY, FULL 20 PERCENT DEVALUATION WOULD PEG DOLLAR AT
IKR. 312.50.

3. CENTRAL BANK BOARD OF GOVERNORS, WHICH IS RESPONSIBLE FOR EXCHANGE RATE, IS INDEPENDENT OF POLITICAL CONTROL, AND, THEREFORE, AT LEAST IN THEORY, NOT AFFECTED BY CURRENT GOVERNMENT CRISIS. IN PRACTICE, EXCHANGE RATE DECISIONS ARE MADE IN CONSULTATION WITH MINISTRY OF COMMERCE. HOWEVER, ALL POLITICAL PARTIES HAVE MADE STATEMENTS ENDORSING NEED FOR DEVALUATION AS PART OF PACKAGE TO SOLVE COUNTRY'S ECONOMIC ILLS. OTHER MEASURES, PRINCIPALLY TO REMOVE EXCESSIVE DEMAND FROM ECONOMY, ARE MAIN POINTS OF CONTENTION IN CURRENT NEGOTIATIONS TO FORM NEW GOVERNMENT. UNLESS A NEW GOVERNMENT IS FORMED AND FOLLOWS UP QUICKLY WITH OTHER MEASURES, BENEFICIAL EFFECT OF ANY DEVALUATION, AS IN EARLIER SITUATIONS, WILL BE LOST.

BLAKE

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Message Attributes

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